

**BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA**

DOCKET NO. 2019-290-WS

In the Matter of:

**Application of Blue Granite Water
Company for Approval to Adjust
Rate Schedules and Increase Rates**

**REBUTTAL TESTIMONY OF
DONALD DENTON FOR
BLUE GRANITE WATER COMPANY**

1 **Q. PLEASE STATE YOUR NAME, PRESENT POSITION, AND BUSINESS**
2 **ADDRESS.**

3 A. My name is Donald Denton. I am President of Blue Granite Water Company in South
4 Carolina (“Blue Granite” or “BGWC” or “Company”), President of Carolina Water Service,
5 Inc. of North Carolina, and President of Tennessee Water Service, Inc., all of which are
6 subsidiaries of Corix Regulated Utilities, Inc. (“CRU”). My business address is 130 South
7 Main Street, Suite 800, Greenville, South Carolina 29601.

8 **Q. ARE YOU THE SAME DONALD DENTON WHO SUBMITTED DIRECT**
9 **TESTIMONY ON BEHALF OF BLUE GRANITE WATER COMPANY IN THIS**
10 **PROCEEDING?**

11 A. Yes.

12 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

13 A. The purpose of my rebuttal testimony is to address the need for and reasonableness of the
14 proposed rate adjustments, as well as address certain issues raised by the ORS, Consumer
15 Advocate, and other intervenors – specifically, the Greenville office upfit costs, employee
16 service award costs, and the Company’s use of the Charlotte interconnection.

17 **Q. HAVE YOU REVIEWED THE FILED DIRECT TESTIMONY OF THE ORS, THE**
18 **CONSUMER ADVOCATE, AND OTHER INTERVENORS?**

19 A. Yes, I have.

20 **Q. 40 LOVE WITNESS RADKE CLAIMS THE PROPOSED RATE INCREASES ARE**
21 **EXCESSIVE AND ONEROUS, AND OTHER INTERVENORS SIMILARLY**
22 **EMPHASIZE THE IMPACTS OF THE PROPOSED RATE INCREASES. HOW**
23 **DOES THE COMPANY RESPOND TO THIS?**

1 A. While we recognize that rate increases are never welcome, the Company filed this
2 application based on the significant capital investments and operating costs we have
3 incurred and will continue to incur in order to provide reliable water and wastewater
4 services to our customers. Approximately 40% of the costs the Company seeks to recover
5 in this proceeding are third-party purchased water and wastewater costs over which the
6 Company has no discretion. The remaining 60% are primarily related to investments the
7 Company has made in water and wastewater infrastructure to support reliable, ongoing
8 operations. The Company's infrastructure is aging, and we are making, and must continue
9 to make, substantial capital investments that are necessary in order to provide safe and
10 compliant water and wastewater services. Rate relief is needed to reflect these costs of
11 service in the prices we charge, and to position the Company to finance new needed
12 investments.

13 As described in Company Witness DeStefano's pre-filed direct testimony, the
14 Company's current earned return on its investments is 0.10%, and its as-adjusted return is
15 actually negative. Blue Granite's financial condition directly affects its ability to provide
16 safe, clean, reliable service, now and in the future.

17 Included in the Company's application is a credit to each customer resulting from
18 Blue Granite's implementation of the Tax Cuts and Jobs Act. We are also looking for ways
19 to help our lower income customers who may face challenges paying their utility bills. To
20 that end, we have proposed a voluntary "Round Up" program, whereby customers who so
21 choose can "round up" their bills to the nearest dollar, and those extra monies will go into
22 a fund to be used to help lower income customers.

1 **I. ADMINISTRATIVE OFFICE UPFIT**

2 **Q. ORS WITNESS MAURER PROPOSES TO DISALLOW COSTS REQUIRED TO**
3 **UPFIT THE COMPANY'S OFFICE BECAUSE THE DECISION TO RELOCATE**
4 **TO GREENVILLE WAS "UNREASONABLE." DO YOU AGREE?**

5 A. No, I disagree for a number of reasons. Obviously, the Company requires a headquarters
6 office, and so long as the costs of its office are reasonable, they should be reflected in rates.
7 Our previous office was located in an industrial park with no other office buildings and no
8 amenities, like restaurants, nearby. It was simply not a viable location for attracting and
9 retaining talented employees. Accordingly, the decision was made to relocate our
10 headquarters office – consistent with our long-term strategic plan to improve performance
11 and service to customers, and consistent with our recognition that the attraction and
12 retention of talented employees is a key to fulfilling that strategy. Notably, the Company
13 would necessarily incur upfit costs whether it relocated within Columbia/West Columbia,
14 Greenville, or somewhere else. The relevant question for regulators is whether those upfit
15 costs are reasonable. The decision to relocate our headquarters office to Greenville was a
16 reasonable business decision, made with the long-term interests of customers in mind.

17 **Q. PLEASE DESCRIBE THE UPFIT COSTS WITH WHICH THE ORS TAKES**
18 **ISSUE.**

19 A. Virtually all of the costs were necessary to making the office space ready for work. These
20 costs included putting up drywall, installing electrical and telecommunications lines,
21 painting, purchasing desks, all the things necessary to efficiently work in an office space.
22 All of this cost information was provided to ORS pursuant to its discovery requests. The
23 offices are up to date and functional, but they are not luxurious or gold-plated. A functional

1 headquarters office space is necessary for our employees to provide utility service, and the
2 associated costs should be reflected in rates.

3 **Q. HOW DO YOU KNOW THAT THE UPFIT COSTS AT ISSUE ARE**
4 **REASONABLE?**

5 A. Benchmarking information supports this conclusion. Real estate firm JLL published a cost
6 benchmarking guide in 2019 using data from more than 3,600 of its managed projects in
7 59 markets across North America.¹ The per-square-foot range of prices for a medium-spec
8 upfit is between \$147.42 per square foot in Fort Worth, Texas to \$212.60 per square foot
9 in New York City. For reference, the per-square-foot price in Charlotte, North Carolina is
10 \$150.84; no South Carolina cities are listed in the report. The Greenville office is 4,287
11 square feet. Applying that figure to the cheapest domestic city in the JLL report yields a
12 total upfit cost of \$631,989.54. The comparable Charlotte figure is \$646,651.08. These
13 figures are substantially higher than the \$495,206 spent on the Greenville office upfit.

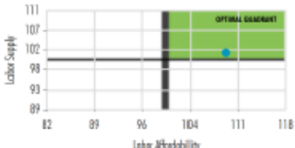
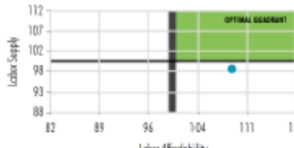
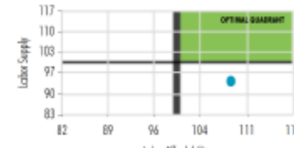
14 I would also note that size of our new office is reasonable. We housed 7 employees
15 in our previous 4,050 square foot office. Now we are housing 10 employees in a 4,287
16 square foot office, while also providing communal areas which allow those employees to
17 collaborate and which accommodate employees visiting from other state-wide or regional
18 locations.

19 **Q. WHY WAS GREENVILLE CHOSEN AS THE NEW HEADQUARTERS**
20 **LOCATION?**

¹ JLL, Fit Out Guide: Office Cost Benchmarking (2019), *available at* <https://www.us.jll.com/content/dam/jll-com/documents/pdf/research/americas/us/am-research-2019-us-fit-out-guide.pdf>.

A. The decision to relocate our headquarters to Greenville was a strategic decision, consistent with our long-term plans for growth and to better serve customers. Once the decision to relocate was made, the Company looked at the relative strength of its ability to attract talent in the Greenville and Columbia/West Columbia markets. The Company considered its brand impact in each market and used CBRE data to compare labor statistics. Attracting talent in the Columbia market has been extremely difficult due to the legacy brand issues in that market. This experience is further discussed in Company Witness Mendenhall's direct testimony as it relates to the Company's decision to outsource its Midlands operations to Clearwater Solutions.

While I agree with ORS that the CBRE Total Index scores are not conclusively determinative as to which city is best suited for the Company, the attributes of Greenville versus Columbia/West Columbia better match our long-term goals of attracting and retaining talented employees and growth throughout the state. As shown below, the labor force, projected population growth, and the balance between labor supply and labor affordability statistics from the CBRE reports support our decision to relocate to Greenville:

	Greenville	Columbia	West Columbia
Labor Force	355,749	263,781	196,189
Projected Population Growth	7.0%	5.1%	5.1%
Labor Supply v. Labor Affordability			

1 **Q. HOW WILL THE RELOCATION TO GREENVILLE HELP THE COMPANY**
2 **ACHIEVE ITS LONG-TERM STRATEGIC GOAL OF IMPROVING SERVICE**
3 **TO CUSTOMERS?**

4 A. The Company and the industry as a whole are facing aging workforce issues, and the
5 eligible workforce is shrinking, so ensuring that the right professionals are being attracted
6 to the Company and retained by the Company is fundamental to the Company's ability to
7 continue providing quality and cost-effective service. As shown above, the statistics
8 indicate that Greenville has a larger workforce and a larger expected population growth
9 than Columbia and West Columbia. We believe these demographics will help us as we face
10 the need to add new employees.

11 Moreover, in addition to being a very livable city that attracts young professionals,
12 the Greenville office, which is located in the historic Family Court building, is within
13 walking distance of our outside engineer company (Goodwyn Mills Cawood, "GMC") and
14 our peer utilities, Pacolet Milliken and Duke Energy. I would point out that, since
15 relocating our headquarters to Greenville, we have been able to successfully attract several
16 strategic new hires who have provided value to customers.

17 **Q. ORS WITNESS MAURER STATES THAT FEWER OF BLUE GRANITE'S**
18 **CUSTOMERS LIVE IN GREENVILLE COUNTY THAN IN OTHER COUNTIES**
19 **IN THE STATE. IS THIS AN IMPORTANT FACTOR WITH RESPECT TO THE**
20 **LOCATION OF THE COMPANY'S HEADQUARTERS?**

21 A. No. As a practical matter, customers rarely if ever visit our headquarters office, and
22 customer contacts are better addressed through our customer service center. This reality
23 also lessens the value of moving the office to an alternate option such as Rock Hill. What

1 is more important is that we attract and retain talented employees. It is also valuable that
2 our outside engineering company, GMC, is located close by for purposes of project
3 planning and management. Finally, it is important to keep in mind that today's profile of
4 the Company's service territory may not be reflective of the territory we serve in the future.
5 The Company continues to look at acquisitions throughout the state and hopes to grow its
6 customer base in the coming years.

7 The Company made a very well-considered decision in the interests of its customers
8 to relocate its headquarters. Whether the Company moved one mile or 100 miles, it would
9 have incurred costs to move and upfit costs for a new building. So, the question is whether
10 the move yielded the intended benefits of attracting new talent. As I stated previously, the
11 answer to that question (which is at the heart of whether the move was reasonable) is a
12 resounding "yes."

13 **II. OTHER ISSUES**

14 **Q. ORS WITNESS JACKSON RECOMMENDS ADJUSTMENT 17B TO REMOVE**
15 **COSTS ASSOCIATED WITH EMPLOYEE SERVICE AWARDS. WHAT IS**
16 **YOUR POSITION ON THIS ADJUSTMENT?**

17 A. As explained above, Blue Granite is engaged in a long-term effort to substantially improve
18 its performance. As part of that effort, we are constantly trying to attract and retain well-
19 qualified employees who are dedicated to the Company's mission of improving its
20 performance. Running a utility is a complicated endeavor that requires talented and
21 experienced employees, and the awards referenced by ORS are a component of the
22 Company's overall compensation package offered to its employees. The awards
23 referenced by ORS are consistent with the Company's market-competitive compensation

1 package, and the awards program supports the Company's efforts to successfully attract
2 and retain well-qualified employees. For that reason, I believe that the \$3,211 in employee
3 awards was prudently incurred and I would note that this amount comprises only a nominal
4 portion of overall employee compensation expense.

5 **Q. YORK COUNTY WITNESS REKITT STATES THAT THE COMPANY'S**
6 **FRANCHISE AGREEMENT WITH THE COUNTY REQUIRES THAT THE**
7 **CHARLOTTE WATER CONNECTION BE USED ONLY AFTER AN**
8 **EMERGENCY HAS BEEN DECLARED. DO YOU AGREE?**

9 A. No. First, this rate case, which exclusively relates to Blue Granite's need for a rate
10 adjustment, has no bearing on the legal interpretation of the franchise agreement. Second,
11 while I believe this to be an inappropriate context for the Commission to weigh in on this
12 issue, the franchise agreement does not limit the Company's use of the Charlotte water
13 connection only to times of emergency. The relevant section of the franchise agreement
14 provides as follows:

15 11. CWS will install emergency backup connection facilities for water
16 supply to Charlotte Mecklenburg Utilities. Should the County choose to
17 have access to this water supply for emergency backup to its water system,
18 the County will be responsible for all capital costs necessary to construct
19 metering facilities to transfer water to its system on a schedule mutually
20 agreed to by CWS and the County and at rates approved by the PSC.

21
22 The franchise agreement clearly applies only to the installation of the water connection and
23 the availability of the water connection to York County, not to how the Charlotte water
24 connection is used. This issue was raised by York County presumably because—now that
25 the Charlotte interconnection has been completed—York County and Charlotte are now
26 direct competitors for supplying water to Blue Granite's customers located in the York

1 County/Lake Wylie service area. The Charlotte water connection provides water to that
2 service area at a rate of \$3.76/1,000 gallons, compared to York County's rate of
3 \$4.42/1,000 gallons. The Company has relied on the Charlotte interconnection for
4 emergency backup needs since it has been in service and will continue to do so. The
5 Company is also utilizing the interconnection for system balancing needs, which in turn
6 prioritizes cost-effective service to our customers. The Company is using the Charlotte
7 interconnection as its least-cost supplier to the extent the system will allow.

8 **Q. WITNESS REKITT ALSO STATES THAT THE "RATE INCREASES TO YORK**
9 **COUNTY CUSTOMERS PRESENTS AN EXCESSIVE AND ONEROUS**
10 **IMMEDIATE IMPACT TO BE BORNE BY THE CUSTOMERS" AND THAT,**
11 **WHILE BLUE GRANITE SEEKS A RATE INCREASE, YORK COUNTY HAS**
12 **SUSPENDED ITS OWN WHOLESALE WATER AND SEWER RATE**
13 **INCREASES. WHAT IS YOUR PERSPECTIVE ON THESE POSITIONS?**

14 **A.** One of the primary reasons why Blue Granite needed to file this rate case is to recover its
15 deferred balances of increased purchased water and wastewater costs. As noted above,
16 those costs make up over 40% of the costs the Company seeks to recover in this proceeding.
17 The Company recovers no carrying costs on those expense increases, and they have been
18 emanating in no small part from York County itself. While York County expresses concern
19 about the rate increase and states that it has suspended its own rate increases, part of the
20 reason the Company has had to make this filing is due to previous rate increases enacted
21 by York County that have not yet been incorporated into the Company's rates to its
22 customers In fact, as noted in the rebuttal testimony of Witness DeStefano, York County's
23 rates have increased by over 104% for water and over 35% for sewer since the Company's

1 last rate case in 2018. This has resulted in York County accounting for 87% of the
2 increased purchased water and sewer treatment cost deferrals requested for recovery in this
3 rate case.² While I agree with Mr. Rekitt that these costs can be onerous for customers, it's
4 important to understand that these costs originate from York County and the other third-
5 party service providers the Company is required to use, and are simply passed along to
6 Blue Granite's customers, with no markup.

7 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

8 **A.** Yes.

² As updated by ORS in the testimony of Witness Briseno, excluding impacts of non-revenue water discussed in the testimony of Witness Maurer.